STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

A PENSION TRUST FUND OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1996

STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794 - 9255

Prepared by the
Accounting Division

Printed on contract by authority of the State of Illinois
650/$4.28 ea/11/96/X702469
Printed on recycled paper

INTRODUCTORY SECTION

- Letter of Transmittal
- Administration, Board of Trustees and Administrative Staff
- Certificate of Achievement for Excellence in Financial Reporting

SRS STATE RETIREMENT SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255, Ph. (217)785-7444

November 29, 1996

The Board of Trustees and Members
State Employees' Retirement System of Illinois
Springfield, IL 62794

Dear Board and Members:

The comprehensive annual financial report of the State Employees' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 1996 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included. The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the required supplementary financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

The combined financial statements include the State Employees' Retirement System Trust Fund (System Trust Fund) and the Social Security Contribution Fund (Contribution Fund), an Agency Fund. Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report. Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include balance sheet information nor the results of operations of the General Assembly Retirement System or Judges' Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

The System is the administrator of a single-employer public employee retirement system established to provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and non-occupational disability programs.

The System Trust Fund was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to $1,255,778. Plan assets at the end of the fiscal year June 30, 1996 are approximately $4.4 billion, and there are 79,212 active members.

REVENUES

Collections of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled $845.4 million during the fiscal year ending June 30, 1996, which is a significant increase from revenue reported for fiscal year 1995, shown as follows:

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Retirement System Trust Fund				
Contributions:				
Employees	$137.2	$ 131.6	$ 5.6	4.3%
Employer	146.4	136.6	9.8	7.2
Investments	561.8	290.8	271.0	93.2
	$845.4	$ 559.0	$286.4	51.2%
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.1	.1	-	-
	$845.5	$ 559.1	$286.4	51.2%

As indicated in the above schedule, approximately 95% of the total revenue increase was attributable to an increase in investment income which was largely the result of significant net realized gains on the sale of investments.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System Trust Fund. Expenses of the System Trust Fund and Social Security Contribution Fund for 1996 and 1995 are shown for comparison purposes.

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Retirement System Trust Fund				
Benefits:				
Retirement annuities	$ 286.2	$ 276.6	$ 9.6	3.5%
Survivors' annuities	33.0	31.1	1.9	6.1
Disability benefits	22.4	21.4	1.0	4.7
Lump-sum death benefits	10.8	9.8	1.0	10.2
	$ 352.4	$ 338.9	$ 13.5	4.0%
Refunds (including Transfers)	13.4	13.4	-	-
Administrative expenses	5.7	5.5	.2	3.6
	$ 371.5	$ 357.8	$ 13.7	3.8%
Social Security Contribution Fund				
Administrative expenses	.1	.1	-	-
	$ 371.6	$ 357.9	$ 13.7	3.8%

The increase in benefit payments results primarily from an increase in the average benefit payment amount.

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statues.

Income from investments has, over the years, increasingly become a greater share of the total revenue of the System. Net investment income, combined with a net realized gain on the sale of investments, amounted to $561.8 million during fiscal year 1996, a significant increase of $271.0 million from fiscal year 1995. Income from investments represents 66.5% of total fund revenue. The Illinois State Board of Investment had a 16.6% rate of return on market values for the year ended June 30, 1996.

A detailed discussion of investment performance and strategies is provided in the Investment Section of this report.

FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 1996, amounted to $7.391 billion. The fund balances for participant contributions, interest accumulations and other future benefits amounted to $4.397 billion as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded present value of credited projected benefits". The unfunded present value of credited projected benefits amounted to $2.994 billion.

ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the State Employees' Retirement System. In prior years, a number of individuals and organizations stressed the need for sound funding of the state's retirement systems including the State Employees' Retirement System. Although previous attempts have been made at providing an adequate funding level to the System, none have been very successful.

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective on July 1, 1995 (i.e. Fiscal Year 1996), provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the State Employees' Retirement System.

Besides the new funding plan, there were no other recent legislative changes having a significant impact on the funding of the System.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. The passage of a new funding plan by the state's General Assembly should ensure that benefits, both those presently accrued and those that will be earned in the future, will continue to be provided for in a timely and consistent manner.

MAJOR EVENTS/INITIATIVES

During the past fiscal year, the System was involved with several major projects. One such project was limited in scope, however, represented a significant step forward in the area of automated data retrieval. The Administrative Services Division implemented a process to electronically image the supporting documentation of administrative expenses paid by the System. Another completed project involved the "linking" of several separate computer data bases to each other in order to assist users in obtaining member account information using a single entry lookup.

A new member trustee, Ms. Caryl Wadley-Foy, was elected to the System's Board of Trustees while Ms. Doris Clark, annuitant, was elected to represent the System's retirees for a third consecutive term. Congratulations to both Caryl and Doris, we look forward to working with you during the upcoming years.

Other projects completed by the System primarily affect internal processing and/or communication. These projects are intended to expedite the response time in providing service and information to our members and other interested parties.

Projects for Fiscal Year 1997 include: Development of a New Employee Orientation Program by the Field Services Division and the automation of certain data which is presently in a microfilm or microfiche format.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made. The administrative expenses of the Social Security Contribution Fund are appropriated annually by the Illinois State Legislature and included in the financial statements of the System Trust Fund. The Contribution Fund uses the modified accrual basis of accounting. The System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Watson Wyatt Worldwide, Chicago, Illinois. Tax consulting services are provided by the accounting firm of KPMG Peat Marwick, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State Employees' Retirement System of Illinois has received a Certificate of Achievement for the past ten consecutive years (fiscal years ended June 30, 1986 through June 30, 1995). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS AND COMMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members in the State of Illinois. On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

Michael L. Mory
Executive Secretary

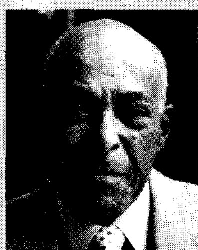
Nicholas C. Merrill, Jr., CPA
Chief Fiscal Officer

Board of Trustees

Loren Iglarsh
Representing Loleta A. Didrickson
Comptroller

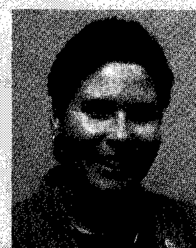
Kenneth W. Obrecht
Chairman, appointed
by the Governor

Sharon Ward
Representing Joan Walters
Director of the Bureau of the Budget



Edward L. Stewart
Annuitant, Appointed
by the Governor

Doris Clark
Elected Annuitant



Caryl Wadley-Foy
Elected Employee

William T. Margalus
State Employee, Appointed
by the Governor

Consultants

- Illinois State Board of Investment
  - Internal and External Investment Managers
- Medical Consultants
- Actuary
- Certified Public Accountants

Staff

- Executive Secretary Michael L. Mory
  - Internal Auditor Terry E. Radliff
  - Associate Executive Secretary Robert V. Knox
    - Accounting and Social Security Divisions Nicholas C. Merrill, Jr.
    - Administrative Services Division William T. Weir
    - Chicago Division Barbara J. C. Baird
    - Claims Division Patrick P. Cummings
    - Data Processing Division James J. Spears
    - Field Services Division John A. Sowinski
    - Service & Refunds Division Joseph S. Maggio

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1995

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Arthur R. Lynch

President

Jeffrey L. Esser

Executive Director

FINANCIAL SECTION

- Independent Auditor's Report

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  - Statements of Revenue, Expenses and Changes in Fund Balance
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- Supplementary Financial Information:
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  - Summary of Revenues by Source
  - Summary Schedule of Cash Receipts and Disbursements

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
State Employees' Retirement System of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Illinois Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of the State Employees' Retirement System of Illinois as of and for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Employees' Retirement System of Illinois as of June 30, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 1996 on our consideration of the State Employees' Retirement System of Illinois' internal control structure and a report dated October 18, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1996 and 1995, taken as a whole. The supplementary information, included on pages 25 through 28, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets - June 30, 1996 and 1995

	1996	1995
Assets		
Cash	$ 51,602,122	$ 19,796,262
Cash, restricted for Social Security remittances	5,275	113,323
Receivables:		
Contributions:		
Participants	5,650,761	5,488,902
Employing state agencies	5,821,391	2,772,604
Other accounts	1,743,249	1,407,550
	$ 13,215,401	$ 9,669,056
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1996, $5,115,275,081; 1995, $4,501,377,263)	4,333,563,775	3,894,060,006
Property and equipment, net of accumulated depreciation	3,811,862	4,099,793
Total Assets	$ 4,402,198,435	$ 3,927,738,440
Liabilities and Fund Balance		
Liabilities		
Benefits payable	$ 2,183,748	$ 1,822,301
Refunds payable	116,463	149,556
Administrative expenses payable	1,141,269	1,021,856
Participants' deferred service credit accounts	1,782,629	1,534,839
Amounts held for Social Security remittances	5,275	113,323
Total Liabilities	$ 5,229,384	$ 4,641,875
Fund Balance		
Actuarial present value of credited projected benefits	7,390,892,435	6,988,469,665
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(2,993,923,384)	(3,065,373,100)
Total Fund Balance	$ 4,396,969,051	$ 3,923,096,565
Total Liabilities and Fund Balance	$ 4,402,198,435	$ 3,927,738,440

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees' Retirement System Trust Fund
Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 137,220,037	$ 131,657,816
Employing State agencies and appropriations	146,397,934	136,589,471
Total Contributions revenue	283,617,971	268,247,287
Investments:		
Net investments income	193,491,522	198,810,974
Interest earned on cash balances	2,265,444	1,268,602
Net realized gain on sale of investments	366,012,247	90,700,469
Total Investments revenue	561,769,213	290,780,045
	845,387,184	559,027,332
General Revenue Fund appropriations, less balances lapsed	62,454	62,725
Total Revenue	845,449,638	559,090,057
Expenses:		
Benefits:		
Retirement annuities	286,277,462	276,614,073
Survivors' annuities	32,972,599	31,066,250
Disability benefits	22,435,912	21,368,962
Lump-sum death benefits	10,792,160	9,813,132
Total Benefits	352,478,133	338,862,417
Refunds	13,378,007	12,933,820
Administrative, System Trust Fund	5,654,407	5,529,003
Transfers to reciprocating retirement systems	4,151	496,687
	371,514,698	357,821,927
Administrative, Contribution Fund	62,454	62,725
Total Expenses	371,577,152	357,884,652
Excess of revenue over expenses	$ 473,872,486	$ 201,205,405
Fund Balance at beginning of year	3,923,096,565	3,721,891,160
Fund Balance at end of year	$ 4,396,969,051	$ 3,923,096,565

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1996 and 1995

(1) Reporting Entity

The combined financial statements of the State Employees' Retirement System of Illinois (System) include the State Employees' Retirement System Trust Fund, a pension trust fund (System Trust Fund) and the Social Security Contribution Fund, an agency fund (Contribution Fund).

Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete.

The State Employees' Retirement System of Illinois is administered by a Board of Trustees consisting of seven persons, which includes a) the Director of the Bureau of the Budget; b) the Comptroller; c) one trustee, not a state employee, who shall be chairman, to be appointed by the Governor for a 5 year term; d) two members of the system, one of whom shall be an annuitant age 60 or over, having at least 8 years of creditable service, to be appointed by the Governor for terms of 5 years; 3) one member of the System having at least 8 years of creditable service, to be elected from the contributing membership of the System by the contributing members; and f) one annuitant of the System who has been an annuitant for at least one full year, to be elected from and by the annuitants of the System.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

(2) Plan Description

The System is the administrator of a single-employer, defined benefit public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees. At June 30, 1996 and 1995, the number of participating state agencies, boards and commissions totaled:

	1996	1995
State agencies	40	43
State boards and commissions	48	48
Total	88	91

At June 30, 1996 and 1995 the System Trust Fund membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	27,900	27,902
Survivors' annuities	9,462	9,401
Disability benefits	1,870	1,801
	39,232	39,104
Inactive employees entitled to benefits but not yet receiving them	3,138	3,016
Total	42,370	42,120
Current Employees:		
Vested: Coordinated with Social Security	45,679	43,991
Noncoordinated	4,976	5,069
Nonvested: Coordinated with Social Security	27,971	29,092
Noncoordinated	586	644
Total	79,212	78,796

Operation of the System Trust Fund and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

Membership is automatic for most state employees who are not eligible for another state-sponsored retirement plan. Generally, all persons entering state service, except those in positions subject to membership in other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and enrollees in the Illinois Young Adult Conservation Corps, become members of the System upon completion of six months service. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

(b) Contributions

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities in accordance with Chapter 40, Section 5/14-133 of the Illinois Compiled Statutes (ILCS). Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is coordinated with Social Security and 8% if the member is not coordinated. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 5 1/2% or 9 1/2 % depending upon whether or not the employee is coordinated with Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment. Effective January 1, 1992, the State of Illinois initiated an employer pickup of employee retirement contributions for most state employees. The amount of the pickup is dependent upon the contribution rates specified above, however, the contributions made on behalf of the member are included in the individual member's account. The State of Illinois is obligated to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System Trust Fund to the extent specified in the ILCS.

(c) Benefits

The System is governed by Chapter 40, Article 5/14 of the ILCS. Vesting and benefit provisions under the System Trust Fund are defined in the ILCS. Employees who retire at or after age 60 with 8 years of credited service (or at age 55 with at least 30 years of credited service with reduced benefits) are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service. Employees with 35 years of credited service may retire at any age with full benefits. Final average compensation for retirement and survivors' annuities, is the employee's average salary, during a 48 consecutive month period within the last 120 months of service in which the total compensation was the highest. State policemen use their final rate of pay for the final average compensation.

Occupational and nonoccupational (including temporary) disability benefits are available through the System Trust Fund. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System Trust Fund. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of state employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System Trust Fund. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

(3) Description of the Contribution Fund

The Contribution Fund was established pursuant to the 1951 Social Security Enabling Act Chapter 40, Article 5/21 of the ILCS. It is a special fund in the State Treasury which serves as a clearinghouse account for the collection and transmittal of federal social security contributions of participating state employees and employing agencies and political subdivisions.

Effective January 1, 1987, the responsibility for the collection and transmittal of Social Security contributions for state agencies and participating state employees was transferred from the System to the Office of the Comptroller of the State of Illinois. As of that same date, political subdivisions of the state became responsible for their own remittance of social security contributions to the federal government. The balance in this fund is being maintained for final settlement of open years.

(4) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting - System Trust Fund

The financial transactions of the System Trust Fund are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Cash and Investments

The System Trust Fund retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System Trust Fund. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System Trust Fund.

The System Trust Fund transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is the The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System Trust Fund's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

The ISBI participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1996 and 1995, the ISBI had outstanding loaned investment securities having a market value of approximately $959,943,956 and $593,757,823 respectively, against which it had received collateral of approximately $994,346,404 and $609,981,555, respectively.

The System Trust Fund owns approximately 94.2% of the net investment assets of the ISBI Commingled Fund as of June 30, 1996.

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end. Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name. Category II includes uninsured and unregistered investments with the securities held by the counterparty's agent in the ISBI's name. Category III includes uninsured and unregistered investments with the securities held by the counterparty but not in the ISBI's name. Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 1996, the ISBI's investments were categorized as follows:

	Market Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 272,041,711	$ 272,041,711	$ -
Foreign Obligations	46,497,033	46,497,033	-
Corporate Obligations	655,882,887	655,882,887	-
Convertible Bonds	12,356,980	12,356,980	-
Common Stock & Equity Funds	1,844,773,931	1,614,256,117	230,517,814
Convertible Preferred Stock	11,539,034	11,539,034	-
Preferred Stock	15,685,986	15,685,986	-
Foreign Equity Securities	455,997,213	326,226,819	129,770,394
Real Estate Funds	243,308,942	-	243,308,942
Alternative Investments	274,289,456	-	274,289,456
Money Market Instruments	620,820,839	21,369,810	599,451,029
Forward Foreign Exchange Contracts	1,154,317	1,154,317	-
Loaned Securities	959,943,956	-	959,943,956
Total Investments	$ 5,414,292,285	$ 2,977,010,694	$ 2,437,281,591

(c) Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 1990. The provision requiring the experience review was modified by Public Act 89-0136, passed by the General Assembly and signed by Governor Jim Edgar on July 14, 1995, which deferred the date of the next review to June 30, 1997. An experience review will be performed every five years thereafter.

(d) Administrative Expenses

Expenses related to the administration of the System Trust Fund are budgeted and approved by the System's Board of Trustees. Administrative expenses for the Contribution Fund are appropriated annually by the State Legislature and are included in the financial statements of the System Trust Fund.

(e) Basis of Accounting - Contribution Fund

The collection and transmittal of federal Social Security contributions of participating state employees, employing agencies and political subdivisions through December 31, 1986, have been accounted for within the Contribution Fund on a modified accrual basis.

(5) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the State Employees' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

The measure is the same as the actuarial funding method used to determine contributions to the System Trust Fund, discussed in Note 6 below.

At June 30, 1996 and 1995, the unfunded pension benefit obligation was $2,993,923,384 and $3,065,373,100 as follows:

	1996	1995
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$ 3,431,767,671	$ 3,387,196,979
Terminated employees not yet receiving benefits	25,283,073	20,905,033
Current Employees:		
Accumulated employee contributions and interest	1,756,877,629	1,599,105,195
Employer-financed vested	1,879,980,086	1,708,650,380
Employer-financed nonvested	197,418,535	181,218,454
Inactive members - Accumulated contributions and interest	99,565,441	91,393,624
Total pension benefit obligation	$ 7,390,892,435	$ 6,988,469,665
Net assets available for benefits, at cost (market value at June 30, 1996 - $5,178,680,357; 1995 - $4,530,413,822)	4,396,969,051	3,923,096,565
Unfunded pension benefit obligation	$ 2,993,923,384	$ 3,065,373,100

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1996. Significant actuarial assumptions used include (a) rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) salary increase rates vary by age, ranging from .5% to 4.7% attributable to merit, and 4.5% attributable to inflation for all employees, (c) 85% of employees are presumed to be married, (d) the female spouse is assumed to be three years younger than the male spouse, (e) mortality rates are based upon the 1971 Group Annuity Mortality Table projected in 1986, (f) terminated employees will not be rehired, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

(6) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System Trust Fund is performed by the System's actuarial consultants in order to determine the amount of contributions required from the State of Illinois. For fiscal years 1996 and 1995, the actuary has used the projected unit credit actuarial method for determining the proper employer contribution rate and amount. The Board certified actuarial required contribution rates for fiscal years 1996 and 1995, were 4.767% and 6.2%, respectively.

The Illinois General Assembly appropriated the employer's contribution for the legislatively funded agencies at 4.767% for fiscal year 1996 and 4.0% for fiscal year 1995. State agencies which do not receive state appropriated funds for their share of employer retirement contributions contribute at the Board certified rate. It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees.

The total amount of actuarially determined employer contributions required for the fiscal year ended June 30, 1996 amounted to $146,360,406 and consisted of (a) $101,450,130 normal cost and (b) $44,910,276 amortization of the unfunded actuarial accrued liability. Actual employer contributions totaling $146,397,934 were made during fiscal year 1996 and consisted of (a) $101,450,130 normal cost and (b) $44,947,804 amortization of the unfunded actuarial liability. Employee contributions made during fiscal year 1996 amounted to $137,220,037 and are all considered to be part of normal cost.

A comparison of the actuarially determined funding requirement versus the actual funding for the fiscal year ended June 30, 1996, shows that the state's employer contributions were made in accordance with the actuarially determined employer contribution requirement for the fiscal year.

Pension Contributions

	Required*			Received
	Normal Cost	Amortization of Unfunded Liability	Total	
Employee	$ 137,220,037	$ -	$ 137,220,037	$ 137,220,037
Percent of Pay	4.779%	-	4.779%	4.779%
Employer	101,450,130	44,910,276	146,360,406	146,397,934
Percent of Pay	3.533%	1.564%	5.097%	5.098%
Total	$ 238,670,167	$ 44,910,276	$ 283,580,443	$ 283,617,971
Percent of Pay	8.312%	1.564%	9.876%	9.877%
Participant Payroll				$ 2,871,501,000

* The Actuarial Required Contribution rate for FY96 was determined in accordance with the provisions of SB533 (P.A. 88-0593). The portion of the employer contribution rate applicable to agency payrolls was 4.767%.

For fiscal year 1995, the required employer contributions were computed in accordance with Public Act 86-0273 which was signed into law on August 23,1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percentage of payroll as determined under the projected unit credit actuarial cost method.

For fiscal year 1996, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note 5.

The separate dollar effects on contribution requirements of any current year changes in: a) actuarial assumptions, b) benefit provisions, c) actuarial funding method and/or d) other significant factors, are the same as those described in Note 5.

(7) Historical Trend Information

Historical trend information designed to provide information about the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 25 - 26.

(8) Administrative Expenses

A summary of the administrative expenses of the System for fiscal years 1996 and 1995 are as follows:

	1996		1995	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	$ 2,367,892	$ 31,343	$ 2,283,766	$ 30,408
Employer retirement pickup	94,297	1,254	89,798	1,216
Retirement contributions	113,145	1,494	141,882	1,885
Social Security contributions	171,694	2,358	165,148	2,257
Group insurance	276,666	-	338,777	-
Contractual services	1,140,711	23,195	948,439	24,033
Travel	51,926	1,273	51,886	1,296
Commodities	24,131	343	25,146	391
Printing	51,678	-	51,128	-
Electronic data processing	830,463	700	846,485	700
Telecommunications	67,974	494	58,119	539
Automotive	10,118	-	9,456	-
Depreciation	386,461	-	462,609	-
Other	67,251	-	56,364	-
Total	$ 5,654,407	$ 62,454	$ 5,529,003	$ 62,725

The System's fiscal years 1996 and 1995 employer retirement contribution requirement represented .10% of total contributions required of all state agency/department employers participating in the SERS for both years. Pertinent financial information relating to the System's participation in SERS is summarized as follows:

- The System's total and covered payrolls for fiscal year 1996 and 1995 were $2.893 million and $2.791 million, respectively.

- The System's (i.e., the employers') actuarially determined contribution requirements for fiscal years 1996 and 1995 were $138 thousand and $173 thousand, respectively, or 4.767% and 6.2% of the System's covered payrolls. For fiscal year 1996, the System's and employee contributions actually made were $138 thousand and $116 thousand, respectively, which represents 4.767% and 4.0%, respectively, of the current year covered payroll. For fiscal year 1995, the System's and employee contributions actually made were $173 thousand and $112 thousand, respectively, which represent 6.2% and 4.0%, respectively, of the covered payroll.

Effective January 1, 1992, the System began making payment of the required employee retirement contributions on behalf of its employees. This "pickup" of employee retirement contributions was included in the fiscal year 1992 operating budget approved by the System's Board of Trustees, and was, in part, paid in lieu of a salary increase.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self -insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1996. However, post-employment costs for the State as a whole for all State agencies/departments for health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois Comprehensive Annual Financial Report. Cost information for retirees by individual State agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

(9) Property and Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years. Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

A summary of the changes in fixed assets for 1996 and 1995 is as follows:

1996	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	208,693	-	-	208,693
Building	3,208,920	4,613	-	3,213,533
Equipment	1,774,575	96,101	(13,544)	1,857,132
Total	5,847,429	100,714	(13,544)	5,934,599
Accumulated Depreciation	(1,747,636)	(386,461)	11,360	(2,122,737)
Property and equipment, net	$ 4,099,793	$ (285,747)	$ (2,184)	$ 3,811,862

1995	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	203,254	5,439	-	208,693
Building	3,208,920	-	-	3,208,920
Equipment	1,900,409	73,457	(199,291)	1,774,575
Total	5,967,824	78,896	(199,291)	5,847,429
Accumulated Depreciation	(1,482,437)	(462,609)	197,410	(1,747,636)
Property and equipment, net	$ 4,485,387	$ (383,713)	$ (1,881)	$ 4,099,793

(10) Accrued Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. These accrued compensated absences as of June 30, 1996 and 1995 totaled $724,466 and $661,161, respectively, and are included as Administrative Expenses Payable.

(11) Analysis of Changes in Fund Balances

The System Trust Fund maintains three reserve accounts which, when combined, comprise the total fund balance. The reserves are defined as follows:

(a) Participants' contributions - accounts for assets contributed by each participant,

(b) Interest accumulations - accounts for interest credited to each participant's account, and

(c) Other future benefits - accounts for all assets not otherwise specifically provided for in items (a) and (b) above.

State Employees' Retirement System Trust Fund
Statements of Changes in Fund Balances
Years ended June 30, 1996 and 1995

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
Balance at June 30, 1994	$ 1,029,390,486	$ 544,137,677	$ 2,148,362,997	$ 3,721,891,160
Add (deduct):				
Excess of revenue over expenses	112,730,646	-	88,474,759	201,205,405
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(21,568,067)	-	21,568,067	-
Interest credited to members' accounts	-	76,259,906	(76,259,906)	-
Balance at June 30, 1995	$ 1,120,553,065	$ 620,397,583	$ 2,182,145,917	$ 3,923,096,565
Add (deduct):				
Excess of revenue over expenses	$ 117,695,415	$ -	$ 356,177,071	$ 473,872,486
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(26,211,768)	-	26,211,768	-
Interest credited to members' accounts	-	81,249,626	(81,249,626)	-
Balance at June 30, 1996	$ 1,212,036,712	$ 701,647,209	$ 2,483,285,130	$ 4,396,969,051

(12) Future Reporting Requirements

In November, 1994, The Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarial determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996, (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997.

Analysis of Funding Progress (in millions of dollars)

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) / (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) / (5)
1987	$ 2,225.9	$3,304.2	67.4%	$1,078.3	$1,825.2	59.1%
1988	2,381.8	3,490.7	68.2	1,108.9	1,954.0	56.8
1989	2,580.2	3,752.1	68.8	1,171.9	2,106.1	55.6
1990	2,795.6	4,538.1	61.6	1,742.5	2,270.3	76.8
1991	2,981.4	4,949.9	60.2	1,968.5	2,461.4	80.0
1992	3,278.2	5,600.8	58.5	2,322.6	2,439.7	95.2
1993	3,496.5	6,044.5	57.8	2,548.0	2,450.3	104.0
1994	3,721.9	6,502.1	57.2	2,780.2	2,623.8	106.0
1995	3,923.1	6,988.5	56.1	3,065.4	2,756.0	111.2
1996	4,397.0	7,390.9	59.5	2,993.9	2,871.5	104.3

*At cost

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System Trust Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source

Fiscal Year Ended June 30	Member Contributions	State Contributions	Investment Income	Sub Total	General Revenue Fund Appropriations, Less Balances Lapsed	Total
1987	$ 90,096,279	$ 109,559,940	$ 226,929,603	$426,585,822	$ 168,326	$ 426,754,148
1988	95,928,239	99,990,922	148,802,057	344,721,218	127,288	344,848,506
1989	101,805,417	98,471,993	199,452,398	399,729,808	97,958	399,827,766
1990	110,109,685	107,938,094	213,139,724	431,187,503	69,142	431,256,645
1991	120,263,354	115,979,568	180,520,373	416,763,295	59,736	416,823,031
1992	141,862,797	98,532,783	344,237,850	584,633,430	56,972	584,690,402
1993	120,041,823	114,413,597	310,470,496	544,925,916	62,408	544,988,324
1994	128,481,556	127,649,961	312,095,169	568,226,686	62,533	568,289,219
1995	131,657,816	136,589,471	290,780,045	559,027,332	62,725	559,090,057
1996	137,220,037	146,397,934	561,769,213	845,387,184	62,454	845,449,638

Expenses by Type

Fiscal Year Ended June 30	Benefits	Contribution Refunds and Transfers	Administrative Expenses, System Trust Fund	Sub Total	Administrative Expenses, Contribution Fund	Total
1987	$ 159,614,328	$ 12,182,099	$ 3,000,932	$ 174,797,359	$ 168,326	$ 174,965,685
1988	173,644,549	11,983,814	3,169,935	188,798,298	127,288	188,925,586
1989	185,354,303	12,602,555	3,380,170	201,337,028	97,958	201,434,986
1990	199,606,912	12,325,179	3,887,148	215,819,239	69,142	215,888,381
1991	215,290,386	11,851,930	3,773,536	230,915,852	59,736	230,975,588
1992	266,652,372	16,918,761	4,229,293	287,800,426	56,972	287,857,398
1993	309,936,732	12,009,124	4,741,217	326,687,073	62,408	326,749,481
1994	326,330,535	11,411,111	5,080,280	342,821,926	62,533	342,884,459
1995	338,862,417	13,430,507	5,529,003	357,821,927	62,725	357,884,652
1996	352,478,133	13,382,158	5,654,407	371,514,698	62,454	371,577,152

Analysis of Employer Contributions
Fiscal Year 1987 through 1996

				Employer Contribution Made						
Fiscal Year	(1) Board Approved Rate	(2) Annual Covered Payroll	(3) Employer Contributions Required (1 x 2)	(4) Employer Contr. (A)	(5) State Pension (B)	(6) Senate Res. No. 33 (C)	(7) Other (D)	(8) (4+5+6+7) Total	(8-3) Excess (Deficiency) of Contrib. Made Over Contr. Req.	(8/2) Employer Contrib. as a % of Covered Payroll
1987	8.400%	$ 1,825,196,000	$153,316,464	$105,095,840	$ 2,215,500	$2,248,600	$ -	$109,559,940	$ (43,756,524)	6.00%
1988	7.240	1,953,960,000	141,466,704	97,725,922	1,673,700	591,300	-	99,990,922	(41,475,782)	5.12
1989	6.300	2,106,121,000	132,685,623	96,564,193	1,907,800	-	-	98,471,993	(34,213,630)	4.68
1990	6.200	2,270,303,000	140,758,786	104,019,494	2,030,000	-	1,888,600	107,938,094	(32,820,692)	4.75
1991	4.720	2,461,352,000	116,175,814	109,930,868	6,048,700	-	-	115,979,568	(196,246)	4.71
1992	4.740	2,439,708,000	115,642,159	96,459,883	2,072,900	-	-	98,532,783	(17,109,376)	4.04
1993	4.870	2,450,350,000	119,332,045	102,441,787	11,971,810	-	-	114,413,597	(4,918,448)	4.67
1994	5.570	2,623,793,000	146,145,270	118,298,761	9,351,200	-	-	127,649,961	(18,495,309)	4.86
1995	6.200	2,756,072,000	170,876,464	126,848,471	9,741,000	-	-	136,589,471	(34,286,993)	4.96
1996	5.097	2,871,501,000	146,360,406	137,574,134	8,823,800	-	-	146,397,934	37,528	5.098

(A) = The System Trust Fund recognizes revenue based upon either the Board approved rate or the state appropriated rate, as appropriate.

(B) = The System Trust Fund receives an annual appropriation from the State Pension Fund. The State Pension Fund receives proceeds from the sale of abandoned and unclaimed property.

(C) = In fiscal year 1983, House Amendment No. 1 to Senate Bill 177 was adopted by the state legislature. This bill reduced the dollar amount appropriated for the employer's share of retirement contributions. Senate Joint Resolution No. 33 provided that the System Trust Fund would be repaid the amount of the Senate Bill 177 reductions at the rate of 20% per year over the succeeding five fiscal years, including interest at 6% per annum. Final payment was received in FY 1988.

(D) = In fiscal year 1990, the System Trust Fund received an additional appropriation from the State of Illinois for the employer contribution.

(E) = The Actuarial Required Contribution rate for FY96 was determined in accordance with the provisions of SB533 (P.A. 88-0593). The portion of the employer contribution rate applicable to agency payrolls was 4.767%.

Combining Balance Sheets June 30, 1996 and 1995

	1996			1995		
Assets	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total
Cash	$ 51,602,122	$ -	$ 51,602,122	$ 19,796,262	$ -	$ 19,796,262
Cash, restricted for Social Security remittances	-	5,275	5,275	-	113,323	113,323
Receivables:						
Contributions:						
Participants	5,650,761	-	5,650,761	5,488,902	-	5,488,902
Employing State Agencies	5,821,391	-	5,821,391	2,772,604	-	2,772,604
Other accounts	1,743,249	-	1,743,249	1,407,550	-	1,407,550
	13,215,401	-	13,215,401	9,669,056	-	9,669,056
Investments	4,333,563,775	-	4,333,563,775	3,894,060,006	-	3,894,060,006
Property and equipment, net of accumulated depreciation	3,811,862	-	3,811,862	4,099,793	-	4,099,793
Total Assets	$ 4,402,193,160	$ 5,275	$ 4,402,198,435	$ 3,927,625,117	$ 113,323	$ 3,927,738,440
Liabilities and Fund Balance						
Liabilities						
Benefits payable	$ 2,183,748	$ -	$ 2,183,748	$ 1,822,301	$ -	$ 1,822,301
Refunds payable	116,463	-	116,463	149,556	-	149,556
Administrative expenses payable	1,141,269	-	1,141,269	1,021,856	-	1,021,856
Participants' deferred service credit accounts	1,782,629	-	1,782,629	1,534,839	-	1,534,839
Amounts held for Social Security remittances	-	5,275	5,275	-	113,323	113,323
Total Liabilities	$ 5,224,109	$ 5,275	$ 5,229,384	$ 4,528,552	$ 113,323	$ 4,641,875
Fund Balance						
Actuarial present value of credited projected benefits	7,390,892,435	-	7,390,892,435	6,988,469,665	-	6,988,469,665
(Less) unfunded present value of credited projected benefits representing an obligation of the State of IL.	(2,993,923,384)	-	(2,993,923,384)	(3,065,373,100)	-	(3,065,373,100)
Total Fund Balance	4,396,969,051	-	4,396,969,051	3,923,096,565	-	3,923,096,565
Total Liabilities & Fund Balance	$ 4,402,193,160	$ 5,275	$ 4,402,198,435	$3,927,625,117	$ 113,323	$ 3,927,738,440

Social Security Contribution Fund
Statements of Changes in Assets and Liabilities, Years Ended June 30, 1996 and 1995

	1996				1995			
Assets	Balance July 1, 1995	Additions	(Deductions)	Balance June 30, 1996	Balance July 1, 1994	Additions	(Deductions)	Balance June 30, 1995
Cash, restricted for Social Security remittances	$ 113,323	$100,000	$ 208,048	$ 5,275	$112,760	$ 563	$ -	$113,323
Liabilities								
Amounts held for Social Security remittances	$ 113,323	$100,000	$ 208,048	$ 5,275	$112,760	$ 563	$ -	$113,323

SYSTEM TRUST FUND — SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1996 and 1995

	1996	1995
Contributions:		
Participants	$ 135,028,062	$ 129,222,210
Repayments of contributions refunded	513,422	540,034
Interest received from participants	1,676,442	1,576,884
ERI service purchase	2,111	318,688
Total participants contributions	$ 137,220,037	$ 131,657,816
Employing state agencies	$ 137,574,134	$ 126,848,471
State Pension Fund appropriation	8,823,800	9,741,000
Total state contributions and appropriations	146,397,934	136,589,471
Investments:		
Net investments income	$ 193,491,522	$ 198,810,974
Interest earned on cash balances	2,265,444	1,268,602
Net realized gain on sale of investments	366,012,247	90,700,469
Total investment revenue	$ 561,769,213	$ 290,780,045
Total Revenue	$ 845,387,184	$ 559,027,332

SYSTEM TRUST FUND — SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1996 and 1995

	1996	1995
Cash balance, beginning of year	$ 19,796,262	$ 9,590,906
Receipts:		
Member contributions	133,369,459	127,386,103
Employer contributions	134,490,179	127,300,635
State Pension Fund contribution	8,823,800	9,741,000
Transfers from Illinois State Board of Investment	120,000,000	99,000,000
Interest income on cash balance	2,141,707	1,194,966
Claims receivable payments	2,462,652	1,514,859
Installment payments - prior service credit	1,307,067	1,280,830
Other	68,556	72,068
Total cash receipts	$ 402,663,420	$ 367,490,461
Disbursements:		
Annuity payments:		
Retirement annuities	$ 286,409,926	$ 276,892,520
Widow's annuities	2,423,994	2,511,375
Survivors' annuities	30,653,385	28,623,173
Death benefits	10,552,673	9,892,088
Disability benefits	21,675,498	19,924,771
Refunds	13,828,892	14,071,145
Administrative expenses	5,313,192	5,370,033
Total cash disbursements	$ 370,857,560	$ 357,285,105
Cash balance, end of year	$ 51,602,122	$ 19,796,262

ACTUARIAL SECTION

Watson Wyatt
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October 14, 1996

Board of Trustees and Executive Secretary
State Employees' Retirement System of Illinois
P. O. Box 19255
2101 S Veterans Parkway
Springfield, Illinois 62794-9255

Actuarial Certification

We have completed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1996.

Pursuant to the law establishing the System, the actuary shall investigate the experience under the System at least once every five years*. Watson Wyatt Worldwide, as the actuary, completed such a review for the five-year period ending June 30, 1990 and recommended assumptions which were adopted by the Board effective June 30, 1990, and which were used for the current valuation. We believe that, in the aggregate, the current assumptions relate reasonably to the past and anticipated experience of the plan.

* *Senate Bill 114 amended the Pension Code to provide for the next five-year review period to begin June 30, 1997 (instead of June 30, 1995).*

A contribution rate has been determined under the Projected Unit Credit Cost Method, providing for a 90% funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/14-131(e). Future contribution rates are expected to increase incrementally beginning in fiscal year 1997 and through fiscal year 2010 to a level contribution rate for fiscal year 2011 through 2045. The required contribution rates and amounts for fiscal year 1998 are as follows:

	Total	Net**
Required Rate	5.333%	5.052%
Required Contribution	$167,715,065	$158,891,265

** *These values reflect the $8,823,800 received from the unclaimed property fund for fiscal year 1996.*

Board of Trustees and Executive Secretary
October 14, 1996
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For purposes of determining contribution rates, assets have been valued at cost as reported by the Illinois State Board of Investment for the 1996 fiscal year, and assets have been projected using market value for subsequent fiscal years. The liabilities have been valued based on employee data which is supplied by the administrative staff of the System and verified by the System's auditor. We have made additional tests to ensure its accuracy.

The contribution rate determined complies with requirements of Senate Bill 533.

Watson Wyatt Worldwide

By: Beth Scheffey
Beth Scheffey
Actuarial Analyst

By: Erminelia Q. Pestañas
Erminelia Q. Pestañas
Associate of the Society of Actuaries

By: William J. Miner
William J. Miner
Fellow of the Society of Actuaries

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INTRODUCTION

The System Trust Fund receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation. The System Trust Fund also receives an annual appropriation from the State Pension Fund.

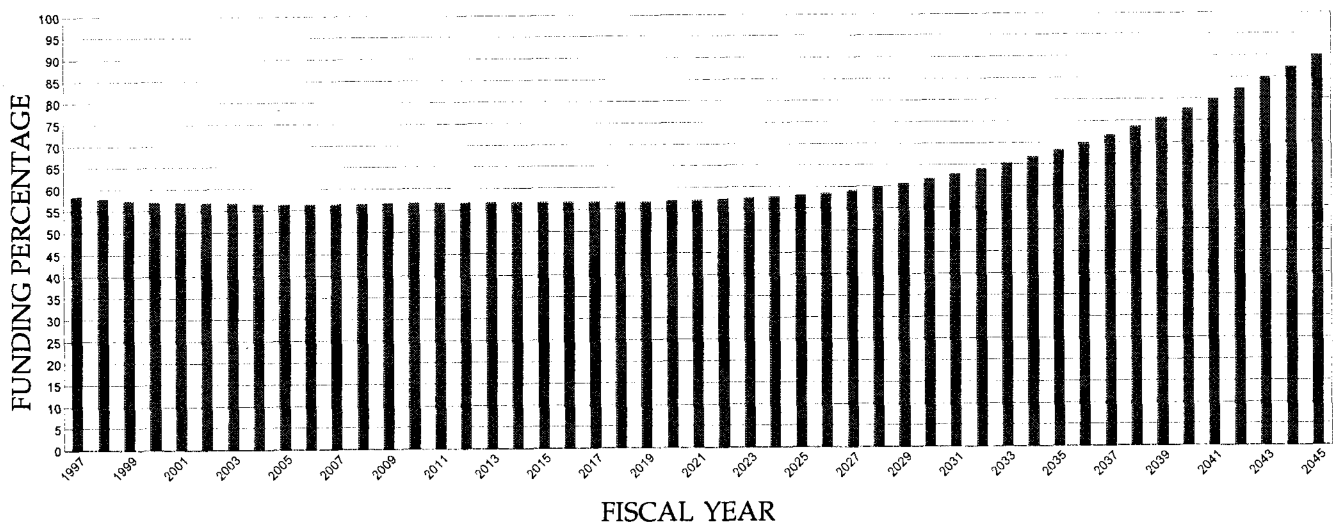
Annually, the System's actuarial consultant prepares a valuation of the liabilities and reserves of the System Trust Fund in order to make a determination of the amount of contributions required from the state. In fiscal years 1996 and 1995, the actuary has determined the required employer contribution rate and amount using the projected unit credit cost method. Fiscal Year 1996 marked the first year that, based upon the state's actual funding method described below, the System, did receive the minimum actuarially determined employer contribution amount.

The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Chapter 40, Section 5/14-131 of the Illinois Compiled Statutes. The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe that this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the State Employees' Retirement System.

The System's actuary has projected valuation results commencing with Fiscal Year 1997. The projection was based on the results of the June 30, 1996 actuarial valuation and the same actuarial assumptions as were used for the valuation. The required employer contributions to the System were calculated in accordance with the contribution requirements in the funding plan established under Public Act 88-0593. The following graph displays the System's projected funded status which shows the 90% funding level being achieved in fiscal year 2045.



ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 1996 and 1995, a projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. For purposes of determining future employer contributions, however, the actuarial gains and losses are amortized in accordance with the funding plan established by Public Act 88-0593.

For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the post-retirement increments, the same procedure as outlined above is followed.

A description of the actuarial assumptions utilized for FY-96 and FY-95 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 1990.

Mortality: 1986 Projected Experience Table, a table based on experience underlying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

Interest: 8% per annum, compounded annually.

Termination: Illustrative rates follow. It is assumed that terminated employees will not be rehired.

	Rate			Rate	
Age	Males	Females	Age	Males	Females
20	.188	.377	40	.047	.056
25	.126	.144	45	.038	.041
30	.085	.096	50	.032	.030
35	.062	.072	55+	.030	.030

Salary Increases: Illustrative rates of increase per annum, compounded annually:

	Males &	Components			Males &	Components	
Age	Females	Merit	Inflation	Age	Females	Merit	Inflation
20	9.2%	4.7%	4.5%	45	6.7	2.2	4.5
25	8.7	4.2	4.5	50	6.2	1.7	4.5
30	8.2	3.7	4.5	55	5.7	1.2	4.5
35	7.7	3.2	4.5	60	5.2	.7	4.5
40	7.2	2.7	4.5	65	5.0	.5	4.5

Retirement Rates: Listed below are rates of retirement that vary by age:

Age	General Employees	Alternative Formula Employees*	Age	General Employees	Alternative Formula Employees*
50-54	-- %	20%	63-64	15 %	20%
55-59	10	20	65	40	40
60	25	20	66-69	25	30
61	15	20	70	100	100
62	20	20			

*An additional 10% are assumed to retire in the year in which the employee completes 30 years of service. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age.

Assets: Assets available for benefits are valued at book value (cost).

Expenses: As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

Marital Status: 85% of employees are assumed to be married.

Spouse's Age: The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages, and numbers of children and Social Security benefit levels.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-96	FY-95
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 2,990,765,595	$ 2,972,623,172
Survivor Annuities	309,524,925	292,437,842
Disability Annuities	119,446,683	109,251,545
Deferred:		
Retirement Annuities	2,491,486	2,504,537
Survivor Annuities	9,538,982	10,379,883
Total	$ 3,431,767,671	$3,387,196,979
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	113,874,700	101,419,174
Eligible for Return of Contributions Only	10,973,814	10,879,483
Total	$ 124,848,514	$ 112,298,657
For Active Members	$ 3,834,276,250	$ 3,488,974,029
Actuarial Present Value of Credited Projected Benefits	7,390,892,435	6,988,469,665
Assets, Book Value (Cost)	4,396,969,051	3,923,096,565
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 2,993,923,384	$ 3,065,373,100

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/87	74,732	$1,825,196,000	$24,423	5.5%
6/30/88	74,923	1,953,960,000	26,080	6.8
6/30/89	76,651	2,106,121,000	27,477	5.4
6/30/90	79,211	2,270,303,000	28,661	4.3
6/30/91	81,023	2,461,352,000	30,378	6.0
6/30/92	77,194	2,439,708,000	31,605	4.0
6/30/93	77,146	2,450,350,000	31,763	0.5
6/30/94	78,440	2,623,793,000	33,450	5.3
6/30/95	78,796	2,756,072,000	34,977	4.6
6/30/96	79,212	2,871,501,000	36,251	3.6

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short- term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

The State of Illinois, however, has generally funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels.

Computed Actuarial Values (in thousands of dollars)

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available For Benefits	Percentage of Actuarial Values Covered by Net Assets Available (1)	(2)	(3)
1987	$ 644,749	$ 1,431,161	$ 1,285,813	$ 2,225,883	100.0%	100.0%	11.7%
1988	699,190	1,546,828	1,395,561	2,381,806	100.0	100.0	9.7
1989	757,180	1,653,880	1,341,074	2,580,199	100.0	100.0	12.6
1990	823,025	1,932,126	1,782,923	2,795,567	100.0	100.0	2.3
1991	897,690	2,078,059	1,974,131	2,981,415	100.0	100.0	0.3
1992	867,003	3,047,923	1,685,841	3,278,248	100.0	79.1	0.0
1993	939,207	3,221,630	1,883,628	3,496,486	100.0	79.4	0.0
1994	1,029,390	3,242,857	2,229,874	3,721,891	100.0	83.0	0.0
1995	1,120,553	3,387,197	2,480,720	3,923,097	100.0	82.7	0.0
1996	1,212,037	3,431,768	2,747,087	4,396,969	100.0	92.8	0.0

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (ANALYSIS OF FUNDING)

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

(in thousands of dollars)

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
1987	$ 3,361,723	$ 2,225,883	66.2%	$ 1,135,840	$ 1,825,196	62.2%
1988	3,641,579	2,381,806	65.4	1,259,773	1,953,960	64.4
1989	3,752,134	2,580,199	68.8	1,171,935	2,106,121	55.6
1990	4,538,074	2,795,567	61.6	1,742,507	2,270,303	76.8
1991	4,949,880	2,981,415	60.2	1,968,465	2,461,352	80.0
1992	5,600,767	3,278,248	58.5	2,322,519	2,439,708	95.2
1993	6,044,465	3,496,486	57.8	2,547,979	2,450,350	104.0
1994	6,502,121	3,721,891	57.2	2,780,230	2,623,793	106.0
1995	6,988,470	3,923,097	56.1	3,065,373	2,756,072	111.2
1996	7,390,892	4,396,969	59.5	2,993,923	2,871,501	104.3

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1987	21,771	1,629	(871)	22,529
1988	22,529	1,506	(997)	23,038
1989	23,038	1,532	(998)	23,572
1990	23,572	1,356	(1,064)	23,864
1991	23,864	1,428	(1,009)	24,283
1992	24,283	5,270	(1,052)	28,501
1993	28,501	974	(1,167)	28,308
1994	28,308	944	(1,123)	28,129
1995	28,129	1,058	(1,285)	27,902
1996	27,902	1,167	(1,169)	27,900

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1987	7,823	514	(322)	8,015
1988	8,015	617	(336)	8,296
1989	8,296	578	(375)	8,499
1990	8,499	525	(395)	8,629
1991	8,629	576	(386)	8,819
1992	8,819	564	(432)	8,951
1993	8,951	605	(441)	9,115
1994	9,115	569	(439)	9,245
1995	9,245	630	(474)	9,401
1996	9,401	583	(522)	9,462

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1987	1,703	1,800	(1,926)	1,577
1988	1,577	1,779	(1,820)	1,536
1989	1,536	1,713	(1,791)	1,458
1990	1,458	1,724	(1,681)	1,501
1991	1,501	2,027	(1,945)	1,583
1992	1,583	2,057	(2,081)	1,559
1993	1,559	2,005	(1,921)	1,643
1994	1,643	2,094	(2,029)	1,708
1995	1,708	2,085	(1,992)	1,801
1996	1,801	1,992	(1,923)	1,870

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-96	FY-95
Unfunded Liability, Beginning of Fiscal Year	$ 3,065,373,100	$ 2,780,230,267
Contributions Due		
Interest on the Unfunded Liability	245,229,848	222,418,421
Total Normal Cost	99,623,290	92,518,591
Participants (includes Repayment of Refunds)	137,220,037	131,657,816
Interest on Normal Cost	9,291,479	8,794,549
Total Due	$ 491,364,654	$ 455,389,377
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 137,220,037	$ 131,657,816
Employing State Agencies and Appropriations	146,397,934	136,589,471
Interest on Contributions	11,126,471	10,523,471
Total Paid	$ 294,744,442	$ 278,770,758
Increase in the Unfunded Liability	$ 196,620,212	$ 176,618,619
Actuarial (Gains) Losses		
(a) Incidence of Disability	$ (716,417)	$ 649,758
(b) In-Service Mortality	15,642,586	17,392,767
(c) Retiree Mortality	7,460,269	8,212,314
(d) Disabled Mortality	(348,330)	(537,798)
(e) Termination of Employment	39,323,776	94,301,914
(f) Salary Increases	(63,804,332)	(17,444,870)
(g) Investment Income	(251,369,719)	3,457,191
(h) Actuarial Valuation Software	-	-
(i) Other	(14,257,761)	2,492,938
Total Actuarial Gain (Loss)	$ (268,069,928)	$ 108,524,214
Total Increase (Decrease) in Actuarial Liability	$ (71,449,716)	$ 285,142,833
Unfunded Liability, End of Fiscal Year	$ 2,993,923,384	$ 3,065,373,100

INVESTMENT SECTION

- Investment Report
- Investment Portfolio Summary
- Analysis of Investment Performance
- Additional Investment Information

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. In addition to the assets of the State Employees' Retirement System, the ISBI also manages the investment function for the General Assembly and Judges' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund). As of June 30, 1996, total net assets under management valued at market, amounted to $5.437 billion. Of the total market value of assets under management, $5.115 billion or 94.2% represented assets of the State Employees' Retirement System.

Management Approach

The ISBI manages its investments in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI has established a long-range investment policy which, in line with the prudent person rule, affirms that the ISBI Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the ISBI Fund, within prudent risk parameters. Further, it is the ISBI's philosophy that the assets owned by the participating systems and managed by the ISBI are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

For fiscal 1996, the ISBI monitored the long-range investment policies for conformance with the new three-year plan adopted on July 1, 1995. A number of changes to the strategic asset allocation targets are included in the new plan. The allocation to international equities was increased from 5% to 10%; the real estate allocation was reduced from 10% to 5%; and cash was eliminated as a strategic asset class (with a corresponding increase in the fixed income allocation).

Investment Results

Led by U.S. stocks, capital markets posted impressive gains during fiscal 1996. U.S. and international stocks achieved double digit returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. Fixed income, struggling against interest rates trending slightly upward, posted modest returns marginally lower than the coupon return. Real estate, after many years of declining values, showed some stabilization during fiscal 1996, with a return roughly equal to the cash on cash rate of return.

ISBI investments earned a total rate of return for fiscal 1996, net of expenses, of 16.6%, well ahead of its long-term objectives of earning 4.5% above the inflation rate; of exceeding the 8.0% assumed actuarial interest rate; and of outperforming the policy-weighted benchmark return of 15.7%. Over longer time periods, the ISBI Fund is comfortably ahead of its investment objectives. The average annual returns for the three and five year periods ended June 30, 1996, were 11.4% and 11.6%, respectively. Over the 14-year period since the adoption of the prudent man legislation, the ISBI Fund has produced a compounded annual rate of return, net of expenses and charges, of 12.6%, and its net assets have increased by $4.4 billion.

Domestic Equities

For the twelve months ended June 30, 1996, U.S. equity markets soared. The S&P 500 Index increased 26.1%, and the BARRA All-U.S. Index, a broader representation of the domestic market, rose 26.2%. Small capitalization stocks, as measured by the Russell 2000 Index, grew at a slightly smaller rate of 23.9%. Within that context, the ISBI Fund's domestic equity portfolio, which is all managed by external investment firms, earned a return of 25.9%, roughly in line with the broad indices.

The ISBI Fund's domestic stock portfolio has outperformed the S&P 500 Index for both the three and five year periods ended June 30, 1996 as shown below:

	1 Year	3 Years	5 Years
ISBI	25.9%	17.3%	16.1%
S&P 500	26.1	17.2	15.7

Global/International Equities

Foreign stock markets overall rivalled the U.S. in total return for the fiscal year. However, a generally strengthening dollar, particularly in Japan, somewhat dampened foreign stock returns for U.S. investors. The Morgan Stanley Europe Australia Far East Index ("MSCI EAFE") earned 13.6% in U.S. dollar terms for the fiscal year ended June 30, less than half the 28.9% local currency return. The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 19.0% in dollar terms for the same period.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both domestic as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain level of diversification. For the fiscal year the ISBI Fund's global managers performed roughly in line with the MSCI World Index, earning 18.8%. The ISBI Fund's international portfolio outperformed its benchmark, increasing 18.4%, compared to 13.6% for the EAFE Index.

Comparative average annual rates of return for the Global/International equities portfolio versus the market index benchmarks is shown below:

	1 Year	3 Years	5 Years
Global Equities			
ISBI	18.8%	13.4%	14.2%
MSCI World Index	19.0	13.6	12.5
International Equities			
ISBI	18.4%	13.7%	11.1%
MSCI EAFE Index	13.6	10.8	10.3

Fixed Income

During fiscal 1996, U.S. fixed income markets were impacted by uncertainty about the direction of inflation, with interest rates drifting higher. The Lehman Aggregate Bond Index earned 5.0% for the 12-month period, while high yield bonds, as represented by the Merrill Lynch High Yield Index, did somewhat better with a return of 9.4%.

Substantially all fixed income assets are managed internally, except approximately $78 million allocated to an external high yield bond manager. The internal account outperformed the Lehman Aggregate Bond index, with a return of 5.8%. Higher returns from the external high yield manager resulted in a total fixed income return of 6.6%.

Comparative average annual rates of return for the total fixed income portfolio versus the market index benchmark is shown below:

	1 Year	3 Years	5 Years
ISBI	6.6%	6.6%	10.5%
Shearson Lehman Aggregate	5.0	5.3	8.3

Real Estate

All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate values stabilized during fiscal 1996, and real estate investments included in the ISBI Fund's portfolio earned a 5.5% rate of return, very close to the portfolio's income return. The ISBI believes that the portfolio is well-positioned for steady performance going forward.

Average annual rates of return for the combined real estate portfolio compared to the market benchmark for unleveraged institution grade property returns is shown below:

	1 Year	3 Years	5 Years
ISBI	5.5%	(1.4)%	(4.2)%
NCRIEF	9.5	6.0	1.5

Alternative Investments

The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. The portfolio's largest investment is with the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnership, which accounts for almost 80% of this category. Fiscal 1996 was a good year for alternative investments. A strong initial public offering (IPO) market allowed a number of portfolio companies to gain access to the auction markets, thereby producing liquidity and/or actual cash returns to the ISBI Fund. In addition, a number of transactions in the KKR portfolio, including the dispositions of First Interstate and Safeway stock, produced strong cash flow for the ISBI Fund. Overall, the category earned 35.1% for the fiscal year.

The ISBI made commitments totalling $37.5 million to four new limited partnerships in fiscal 1996. Although the current allocation to this asset class is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance anticipated distributions from maturing partnerships. The new partnerships are Summit Ventures IV; Golder, Thoma, Cressey, Rauner Fund V; Madison Dearborn Capital Partners II; and Interwest Partners VI. Funds for these future commitments will come from cash flow generated from existing alternative investments.

Management Expenses

Total operating expenses, primarily fees to external managers, for the fiscal year were $15,511,389, compared to $13,859,829 for the previous fiscal year. The expense ratio (expenses divided by average net assets under management) was .30% in fiscal 1996, compared to .31% in fiscal 1995.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1996. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1996			
	Cost	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,642,047,952	35.7%	$ 1,662,844,282	30.6%
Equities	1,455,525,138	31.6	2,051,373,589	37.7
Foreign Equities	471,436,838	10.3	560,500,860	10.3
Real Estate	248,646,781	5.4	243,308,942	4.5
Non-Marketable[2]	152,231,154	3.3	274,289,456	5.0
Cash equivalents[3]	631,771,908	13.7	644,499,316	11.9
	$ 4,601,659,771	100.0%	$ 5,436,816,445	100.0%

	June 30, 1995			
	Cost	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,631,919,678	39.4%	$ 1,706,080,032	35.6%
Equities	1,393,118,587	33.6	1,839,365,276	38.4
Foreign Equities	382,488,822	9.2	434,791,884	9.1
Real Estate	254,994,362	6.2	249,380,026	5.2
Non-Marketable[2]	141,814,677	3.4	223,541,441	4.7
Cash equivalents[3]	337,390,954	8.2	338,111,358	7.0
	$ 4,141,727,080	100.0%	$ 4,791,270,017	100.0%

[1]Maturities of one year or longer, including convertible bonds.
[2]Interests in limited partnerships and other entities which have limited liquidity.
[3]Cash Equivalents includes other assets, less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1996	1995	1994	1993	1992
Total Return* - Past 3 years		11.4%			
Total Return* - Past 5 years			11.6%		
Total Return* - year by year	16.6%	14.0%	4.0%	12.1%	11.6%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	4.0%	4.7%	4.5%	4.7%	5.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	6.6%	11.9%	1.6%	15.6%	17.1%
Comparison index:					
Shearson Lehman Aggregate	5.0%	12.6%	(1.3%)	11.8%	14.1%
Comparative rates of return on equities					
Domestic equities - ISBI	25.9%	21.5%	5.5%	13.7%	15.2%
Comparison index:					
S&P 500	26.1%	26.1%	1.3%	13.6%	13.5%

*Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

ADDITIONAL INVESTMENT INFORMATION

Gross investment income for 1996 of $208,075,848, less the ISBI's administrative expenses of $14,584,326 resulted in net investment income of $193,491,522. This amount, when combined with the net realized gain on sale of investments of $366,012,247 provided net revenue from investments of $559,503,769. Net cash transfers from the Illinois State Board of Investment were $120,000,000 during FY 1996. The balance of investments at cost increased by $439,503,769 from June 30, 1995 through June 30, 1996. The following table shows a comparison of investment operations for FY 1996 and FY 1995.

			Increase/(Decrease)	
	1996	1995	Amount	Percentage
Balance at beginning of year, at cost	$ 3,894,060,006	$ 3,703,548,563	$ 190,511,443	5.1%
Cash transferred from ISBI (net)	(120,000,000)	(99,000,000)	(21,000,000)	21.2%
Investment income:				
Commingled Fund income	$ 208,075,848	$ 211,829,702	$ (3,753,854)	(1.8)%
Less Expenses	(14,584,326)	(13,018,728)	(1,565,598)	12.0%
Net investment income	$ 193,491,522	$ 198,810,974	$ (5,319,452)	(2.7)%
Distributed Net Realized Gain on Sale of Investments	$ 366,012,247	$ 90,700,469	$ 275,311,778	303.5%
Balance at end of year, at cost	$ 4,333,563,775	$ 3,894,060,006	$ 439,503,769	11.3%
Market value	$ 5,115,275,081	$ 4,501,377,263	$ 613,897,818	13.6%

In addition, interest on the average balance in the System's account for FY 1996 was $2,265,444 compared to $1,268,602 during FY 1995, primarily due to significantly higher average balances maintained during FY 1996.

STATISTICAL SECTION

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BALANCE SHEET ASSETS - SYSTEM TRUST FUND

FY Ended June 30	Cash	Receivables	Investments At Cost	Fixed Assets, Net of Accumulated Depreciation	Total
1987	$ 5,977,771	$ 10,189,788	$ 2,211,906,317	$ 168,785	$ 2,228,242,661
1988	9,893,839	6,931,093	2,367,063,722	823,484	2,384,712,138
1989	9,730,385	7,047,705	2,565,152,803	1,103,973	2,583,034,866
1990	11,187,478	8,072,524	2,775,885,256	4,340,351	2,799,485,609
1991	18,682,979	12,050,151	2,949,573,783	4,436,451	2,984,743,364
1992	12,413,156	8,546,535	3,257,144,759	4,311,268	3,282,415,718
1993	13,750,680	7,755,870	3,477,072,371	4,834,164	3,503,413,085
1994	9,590,906	9,125,040	3,703,548,563	4,485,387	3,726,749,896
1995	19,796,262	9,669,056	3,894,060,006	4,099,793	3,927,625,117
1996	51,602,122	13,215,401	4,333,563,775	3,811,862	4,402,193,160

BALANCE SHEET LIABILITIES AND FUND BALANCE - SYSTEM TRUST FUND

		FUND BALANCE				
FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations	Reserve For Future Operations	Total Fund Balance	Total
1987	$ 2,359,515	$ 644,749,034	$ 256,208,045	$ 1,324,926,067	$ 2,225,883,146	$ 2,228,242,661
1988	2,906,072	699,189,621	293,701,690	1,388,914,755	2,381,806,066	2,384,712,138
1989	2,836,020	757,180,186	334,758,898	1,488,259,762	2,580,198,846	2,583,034,866
1990	3,918,499	823,025,513	380,950,235	1,591,591,362	2,795,567,110	2,799,485,609
1991	3,328,811	897,689,637	432,192,642	1,651,532,274	2,981,414,553	2,984,743,364
1992	4,168,161	867,002,526	417,372,947	1,993,872,084	3,278,247,557	3,282,415,718
1993	6,926,685	939,206,550	473,504,132	2,083,775,718	3,496,486,400	3,503,413,085
1994	4,858,736	1,029,390,486	544,137,677	2,148,362,997	3,721,891,160	3,726,749,896
1995	4,528,552	1,120,553,065	620,397,583	2,182,145,917	3,923,096,565	3,927,625,117
1996	5,224,109	1,212,036,712	701,647,209	2,483,285,130	4,396,969,051	4,402,193,160

REVENUES BY SOURCE - SYSTEM TRUST FUND*

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
1987	$ 90,096,279	$ 109,559,940	$ 226,929,603	$ 426,585,822
1988	95,928,239	99,990,922	148,802,057	344,721,218
1989	101,805,417	98,471,993	199,452,398	399,729,808
1990	110,109,685	107,938,094	213,139,724	431,187,503
1991	120,263,354	115,979,568	180,520,373	416,763,295
1992	141,862,797	98,532,783	344,237,850	584,633,430
1993	120,041,823	114,413,597	310,470,496	544,925,916
1994	128,481,556	127,649,961	312,095,169	568,226,686
1995	131,657,816	136,589,471	290,780,045	559,027,332
1996	137,220,037	146,397,934	561,769,213	845,387,184

*These amounts do not include the General Revenue Fund appropriation for the administrative expenses of the Contribution Fund.

EXPENSES BY TYPE - SYSTEM TRUST FUND*

FY Ended June 30	Benefits	Contribution Refunds (Incl. Transfers)	Administrative Expenses	Total
1987	$ 159,614,328	$ 12,182,099	$ 3,000,932	$ 174,797,359
1988	173,644,549	11,983,814	3,169,935	188,798,298
1989	185,354,303	12,602,555	3,380,170	201,337,028
1990	199,606,912	12,325,179	3,887,148	215,819,239
1991	215,290,386	11,851,930	3,773,536	230,915,852
1992	266,652,372	16,918,761	4,229,293	287,800,426
1993	309,936,732	12,009,124	4,741,217	326,687,073
1994	326,330,535	11,411,111	5,080,280	342,821,926
1995	338,862,417	13,430,507	5,529,003	357,821,927
1996	352,478,133	13,382,158	5,654,407	371,514,698

*These amounts do not include the General Revenue Fund Appropriations for the administrative expenses of the Contribution Fund.

BENEFIT EXPENSES BY TYPE - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1987	$ 119,758,023	$ 18,955,079	$ 14,521,296	$6,379,930	$ 159,614,328
1988	132,265,411	20,319,659	14,660,199	6,399,280	173,644,549
1989	142,706,550	20,987,489	14,379,147	7,281,117	185,354,303
1990	154,368,901	22,014,615	15,313,434	7,909,962	199,606,912
1991	166,360,086	23,592,609	16,655,172	8,682,519	215,290,386
1992	215,470,012	25,104,054	17,764,029	8,314,277	266,652,372
1993	256,666,173	26,958,900	17,893,919	8,417,740	309,936,732
1994	268,772,969	28,934,211	19,708,185	8,915,170	326,330,535
1995	276,614,073	31,066,250	21,368,962	9,813,132	338,862,417
1996	286,277,462	32,972,599	22,435,912	10,792,160	352,478,133

TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members Male	Coordinated Members Female	Coordinated Members Total	Noncoordinated Members Male	Noncoordinated Members Female	Noncoordinated Members Total	Total Male Members	Total Female Members	Total Members
1987	43,865	41,736	85,601	6,416	4,631	11,047	50,281	46,367	96,648
1988	43,988	41,914	85,902	6,257	4,342	10,599	50,245	46,256	96,501
1989	44,449	43,086	87,535	5,947	4,027	9,974	50,396	47,113	97,509
1990	45,885	44,683	90,568	5,750	3,741	9,491	51,635	48,424	100,059
1991	47,223	45,939	93,162	5,608	3,499	9,107	52,831	49,438	102,269
1992	46,536	45,131	91,667	4,316	2,639	6,955	50,852	47,770	98,622
1993	47,471	45,577	93,048	3,983	2,528	6,511	51,454	48,105	99,559
1994	48,175	45,969	94,144	3,952	2,425	6,377	52,127	48,394	100,521
1995	48,499	46,588	95,087	3,877	2,270	6,147	52,376	48,858	101,234
1996	47,070	45,481	92,551	3,801	2,156	5,957	50,871	47,637	98,508

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	Coordinated Members Male	Coordinated Members Female	Coordinated Members Total	Noncoordinated Members Male	Noncoordinated Members Female	Noncoordinated Members Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
1987	32,294	32,270	64,564	5,924	4,244	10,168	38,218	36,514	74,732	$1,825,196,000
1988	32,567	32,570	65,137	5,804	3,982	9,786	38,371	36,552	74,923	1,953,960,000
1989	33,342	34,047	67,389	5,557	3,705	9,262	38,899	37,752	76,651	2,106,121,000
1990	34,818	35,476	70,294	5,433	3,484	8,917	40,251	38,960	79,211	2,270,303,000
1991	35,984	36,461	72,445	5,325	3,253	8,578	41,309	39,714	81,023	2,461,352,000
1992	35,263	35,447	70,710	4,069	2,415	6,484	39,332	37,862	77,194	2,439,708,000
1993	35,782	35,324	71,106	3,734	2,306	6,040	39,516	37,630	77,146	2,450,350,000
1994	36,650	35,867	72,517	3,719	2,204	5,923	40,369	38,071	78,440	2,623,793,000
1995	36,777	36,306	73,083	3,644	2,069	5,713	40,421	38,375	78,796	2,756,072,000
1996	37,053	36,597	73,650	3,584	1,978	5,562	40,637	38,575	79,212	2,871,501,000

NUMBER OF RECURRING BENEFIT PAYMENTS - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
1987	22,529	8,015	1,577	32,121
1988	23,038	8,296	1,536	32,870
1989	23,572	8,499	1,458	33,529
1990	23,864	8,629	1,501	33,994
1991	24,283	8,819	1,583	34,685
1992	28,501	8,951	1,559	39,011
1993	28,308	9,115	1,643	39,066
1994	28,129	9,245	1,708	39,082
1995	27,902	9,401	1,801	39,104
1996	27,900	9,462	1,870	39,232

*Includes individuals receiving total temporary disability payments under the Workers' Compensation Act.

TERMINATION REFUNDS - NUMBER/AMOUNT - SYSTEM TRUST FUND

1987	4,930	$11,192,197
1988	4,431	11,015,216
1989	3,879	11,393,289
1990	3,509	11,088,659
1991	3,235	10,488,713
1992	3,257	11,634,268
1993	2,797	10,737,417
1994	2,961	10,303,901
1995	3,025	11,782,320
1996	2,930	11,943,623

RETIREMENT ANNUITIES - SYSTEM TRUST FUND

Average Monthly Benefit For Current Year Retirees By Type

Fiscal Year Ending June 30	1996	1995	1994	1993	1992
Not Coordinated with Social Security	$ 1,303.20	$ 1,148.34	$ 918.46	$ 1,057.75	$ 1,860.38
Coordinated with Social Security	556.97	503.63	452.06	418.51	683.38
Alternative Formula	3,491.74	3,407.17	3,716.55	3,425.19	2,863.17
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	2,145.22	2,157.93	2,255.04	2,111.92	1,944.69
Dept. of Corrections - Special Formula Coordinated with Social Security	1,414.94	1,217.66	1,109.41	945.65	1,341.49
Air Pilots - Coordinated with Social Security	-	-	-	2,082.77	
Court Reporters - Not Coordinated with Social Security	854.78	2,242.57	2,069.37	-	1,981.77
Court Reporters - Coordinated with Social Security	1,362.34	1,120.06	1,436.76	399.37	1,120.78
Total Average	$ 855.84	$ 757.57	$ 723.53	$ 1,302.27	$ 1,243.94

RETIREMENT ANNUITIES - SYSTEM TRUST FUND

Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	1996	1995	1994	1993	1992
Under 51	91	114	164	223	109
51-55	484	589	671	768	905
56-60	1,531	1,641	1,714	1,880	1,973
61-65	3,939	3,971	4,084	4,184	4,563
66-70	5,953	5,995	6,219	6,375	6,354
71-75	6,018	6,023	5,879	5,755	5,665
76-80	4,657	4,656	4,653	4,589	4,634
81-85	3,241	3,071	2,982	2,871	2,684
86-89	1,250	1,163	1,102	1,038	1,030
Over 89	736	679	661	625	584
Total	27,900	27,902	28,129	28,308	28,501
Average age	72.45	72.14	71.84	71.44	71.19

RETIREMENT ANNUITIES - SYSTEM TRUST FUND

Average Service (in months) for Current Year Retirees at Effective Date of Benefit

Fiscal Year Ending June 30	1996	1995	1994	1993	1992
Not Coordinated with Social Security	372.90	370.36	370.34	350.78	407.93
Coordinated with Social Security	232.28	224.53	223.30	216.06	207.55
Alternative Formula	343.09	354.23	361.57	350.02	346.61
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	350.03	371.57	348.62	354.05	369.84
Dept. of Corrections -Special Formula - Coordinated with Social Security	287.70	289.54	288.32	277.78	307.44
Air Pilots - Coordinated with Social Security	-	-	-	-	338.00
Court Reporters - Not Coordinated with Social Security	204.00	360.00	409.81	-	380.92
Court Reporters - Coordinated with Social Security	316.00	277.00	333.50	177.75	299.71
Total Average	266.23	265.25	268.36	279.31	324.55

Annuitants by Benefit Range (Monthly) June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	830	830	3.0	3.0
101-200	3,384	4,214	12.1	15.1
201-300	3,713	7,927	13.3	28.4
301-400	3,112	11,039	11.2	39.6
401-500	2,397	13,436	8.6	48.2
501-600	1,952	15,388	7.0	55.2
601-700	1,540	16,928	5.5	60.7
701-800	1,187	18,115	4.3	65.0
801-900	987	19,102	3.5	68.5
901-1000	825	19,927	3.0	71.5
1001-1100	737	20,664	2.6	74.1
1101-1200	723	21,387	2.6	76.7
1201-1300	597	21,984	2.1	78.8
1301-1400	536	22,520	1.9	80.7
1401-1500	471	22,991	1.7	82.4
1501-1600	409	23,400	1.5	83.9
1601-1700	364	23,764	1.3	85.2
1701-1800	366	24,130	1.3	86.5
1801-1900	324	24,454	1.2	87.7
1901-2000	300	24,754	1.1	88.8
2001-2100	274	25,028	1.0	89.8
2101-2200	268	25,296	1.0	90.8
2201-5000	2,592	27,888	9.3	100.0
5000- & over	12	27,900	0.0	100.0

Widow's and Survivors' by Benefit Range (Monthly) June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	2,100	2,100	22.2	22.2
101-200	2,061	4,161	21.8	44.0
201-300	1,837	5,998	19.4	63.4
301-400	1,388	7,386	14.7	78.1
401-500	969	8,355	10.2	88.3
501-600	282	8,637	3.0	91.3
601-700	212	8,849	2.2	93.5
701-800	166	9,015	1.8	95.3
801-900	121	9,136	1.3	96.6
901-1000	101	9,237	1.1	97.7
1001-1100	63	9,300	0.7	98.4
1101-1200	43	9,343	0.5	98.9
1201-1300	27	9,370	0.3	99.2
1301-1400	17	9,387	0.2	99.4
1401-1500	22	9,409	0.2	99.6
1501-1600	12	9,421	0.1	99.7
1601-1700	12	9,433	0.1	99.8
1701-1800	9	9,442	0.1	99.9
1801-1900	10	9,452	0.1	100.0
1901-2000	4	9,456	0.0	100.0
2001-2100	1	9,457	0.0	100.0
2101-2200	2	9,459	0.0	100.0
2201-5000	3	9,462	0.0	100.0
5000- & over	0	9,462	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	25	25	1.3	1.3
101-200	81	106	4.3	5.6
201-300	220	326	11.8	17.4
301-400	204	530	10.9	28.3
401-500	200	730	10.7	39.0
501-600	120	850	6.4	45.4
601-700	88	938	4.7	50.1
701-800	70	1,008	3.7	53.8
801-900	56	1,064	3.0	56.8
901-1000	115	1,179	6.1	62.9
1001-1100	108	1,287	5.8	68.7
1101-1200	83	1,370	4.4	73.1
1201-1300	96	1,466	5.1	78.2
1301-1400	79	1,545	4.2	82.4
1401-1500	69	1,614	3.7	86.1
1501-1600	76	1,690	4.1	90.2
1601-1700	48	1,738	2.6	92.8
1701-1800	38	1,776	2.0	94.8
1801-1900	27	1,803	1.4	96.2
1901-2000	24	1,827	1.4	97.6
2001-2100	11	1,838	0.6	98.2
2101-2200	8	1,846	0.4	98.6
2201-5000	24	1,870	1.4	100.0
5000- & over	0	1,870	0.0	100.0

Active Retirees by State

PLAN SUMMARY AND LEGISLATION SECTION

- **Plan Summary**
- **Legislation**

SUMMARY OF RETIREMENT SYSTEM PLAN (As of June 30, 1996)

1. PURPOSE

The State Employees' Retirement System of Illinois, a state agency, provides an orderly means whereby aged or disabled employees may be retired from active service without prejudice or hardship and enables the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

Generally all persons entering state service become members of the System after serving a six-month qualifying period unless their position is subject to membership in another state supported system. Any enrollee of the Young Adult Conservation Corps is excluded from membership. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System. Several other exceptions may also apply.

4. MEMBER CONTRIBUTIONS

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. Contribution rates are as shown below:

A. Members Coordinated with Social Security - 4% of salary

B. Members Without Social Security - 8% of salary

C. State Police, Special Agents, Firefighters, Secretary of State Investigators, Conservation Police Officers, Department of Revenue Investigators, Central Management Services Security Police, Mental Health Police Officers, Dangerous Drug Investigators for Department of Alcoholism and Substance Abuse, Attorney General Investigators, State's Attorneys Appellate Prosecutor Investigators, and Commerce Comission Police Officers - 9 1/2% of salary

D. Full Time Security Employees of the Department of Corrections; Air Pilots -
(1) Coordinated with Social Security - 5 1/2% of salary
(2) Without Social Security - 9 1/2% of salary

Members coordinated with social security also pay the current social security tax rate.

Effective January 1, 1992, most state agencies began participation in an employer pickup of employee retirement contributions program in lieu of a pay increase. The employer (i.e. the State of Illinois) now pays all or a part of the required employee contributions on behalf of its employees.

5. RETIREMENT ANNUITY

A. Qualification of Member

Upon termination of state service, a member is eligible for a retirement annuity at age 60 with at least eight years of service credit; at any age with 35 or more years of credit; between ages 55 and 60 with 30 to 35 years of credit with the retirement annuity reduced by one-half of 1% for each month the member is under age 60. Security employees of the Department of Corrections and the Department of Mental Health and Developmental Disabilities - Chester, Illinois who are not eligible for the Alternative Formula must have at least 20 years of membership service to qualify for special retirement formulas which will apply only to the service earned while in a security position.

Members in Alternative Formula positions are eligible at age 50 with at least 25 years of eligible creditable service or at age 55 with at least 20 years of eligible creditable service in such a position.

B. Amount of Retirement Annuity

The retirement annuity is based on the member's final average compensation and the number of years of service credit that have been established. The retirement formula reflects a graded or progressive method according to length of service as follows:

Years of Credit	Employees Under Social Security	Employees Not Under Social Security	Full Time Security Employees- Dept. of Corrections* Under S.S./Not Under S.S.		Alternative Formula, i.e. Police and other positions Under S.S./Not Under S.S.		Court Reporter Under S.S./Not Under S.S.	
Each of the first 10 years of credit	1.0%	1.67%	1.67%	1.90%	1.67%	2.25%	1.5%	2.2%
Each of the second 10 years of credit	1.1%	1.90%	1.90%	2.10%	1.90%	2.50%	1.5%	2.2%
Each of the third 10 years of credit	1.3%	2.10%	2.10%	2.25%	2.10%	2.75%	1.5%	2.2%
Each year above 30 years	1.5%	2.30%	2.30%	2.50%	2.30%	2.75%	1.5%	2.2%

*Who are not eligible for the Alternative Formula. Also included in this group are Department of Mental Health - Chester, Illinois security employees.

The maximum retirement annuity payable is 75% of final average compensation. The minimum retirement annuity payable is $7.50 for each year of covered employment and $15.00 for each year of noncovered employment.

C. Optional Forms of Payment

Reversionary Annuity - A member may elect to receive a smaller retirement annuity during his lifetime in order to provide a designated dependent with a lifetime income. That payment would be in addition to any other benefit payable by the System.

Level Income - A member who contributes to social security as a state employee may elect to have his retirement annuity payments increased before the age at which the member can receive social security benefits and reduced after that age to provide a uniform retirement annuity income throughout his retired life. To be eligible for this election the member must have established eligibility for a social security retirement annuity.

D. Annual Increase in Benefit

Post retirement increases of 3% are granted to members effective each January 1, after receipt of benefits for one full year.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in state employment, the member must have established at least 18 months of service credit. If death occurs after termination of state service and the member was not receiving a retirement annuity, the member must have established at least eight years of service credit.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse any unmarried children of the member under age 18 or over 18 if mentally or physically disabled and unable to work; unmarried children under age 18 if no spouse survives; or dependent parents at age 50 if neither an eligible spouse nor eligible children survive the member.

A spouse that is the sole nominated beneficiary and sole survivor may elect other death benefits as described in Number 9.

B. Amount of Payment

If the member's death occurs before retirement, the named beneficiary receives a lump sum refund of all the member's retirement contributions plus the interest credited to the member's account, excluding contributions for widow and survivors' benefits. A single lump sum payment of $1,000 is also made to the qualified survivor of the member.

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of $400. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of $600 or 80% of final average compensation. If only eligible children survive, the monthly annuity may not exceed the lessor of $600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed $400. If the member's death occurs after retirement or after termination of state employment, but before the member receives aretirement annuity, the monthly benefit is the same as during active employment or 80% of the earned retirement annuity at date of death.

The minimum total survivor benefit payable to the survivors' annuity beneficiaries of a deceased member or annuitant shall be 50% of the amount of retirement annuity that was or would have been payable to the deceased member on the date of death. Monthly benefits payable to survivors of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits they are eligible to receive from social security as a widow(er). The social security offset may not reduce the benefit by more than 50%.

C. Duration of Payment

The monthly annuity payable to a spouse terminates upon death or remarriage prior to attainment of age 55; to children upon death, marriage, or attainment of age 18, except for a child who at age 18 is physically or mentally disabled and unable to accept gainful employment, which terminate at death or gainful employment. Dependent parents' benefits terminate at death or remarriage.

D. Annual Increase in Benefit

The survivor benefit is increased by 3% each January 1, after receipt of benefits for one full year. Survivors of retired members receive an increase on January 1 following the commencement of the benefit.

7. WIDOW'S ANNUITY

The widow of a male member who was a participant in the System prior to July 19, 1961, may have the option of taking a Widow's Annuity rather than the Survivors' Annuity.

A. Qualification of Widow

An eligible widow receives a Widow's Annuity if she is age 50 or over or has in her care any of the member's unmarried children under age 18. If she is not age 50 and has no such children in her care, she becomes eligible at age 50.

B. Amount of Payment

The Widow's Annuity consists of a lump sum payment of $500, plus a monthly annuity equal to 50% of the retirement annuity earned or received by the member at the date of death. If the widow has in her care eligible children of the member, the monthly annuity is increased 5% because of each child, subject to a maximum payment equal to 66 2/3% of the earned retirement annuity. Monthly benefits payable to a widow of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits she is eligible to receive from social security as a widow. The social security offset may not reduce the benefit by more than 50%.

C. Duration of Payment

The monthly payment to the widow continues for her lifetime whether or not she remarries. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated (death, marriage or attainment of age 18).

D. Annual Increase in Benefit

The widow's benefit is increased by 3% each January 1, after receipt of benefits for one full year. Widows of retired members receive the increase on January 1 following the commencement of the benefit.

8. OCCUPATIONAL DEATH BENEFIT

A. Qualification of Survivors

If a member's death results from a job related cause, the spouse may be eligible for an Occupational Death benefit. If only unmarried children under age 18 survive, they may be eligible for the benefit. If neither spouse nor eligible children survive, a dependent father or mother may be eligible.

B. Amount of Payment

The nominated beneficiary receives a lump sum payment consisting of all contributions made by the member plus the interest credited to the member's account. A surviving spouse is entitled to a monthly benefit equal to 50% of the member's final average compensation. If children under age 18 also survive, the annuity is increased by 15% of such average because of each child subject to a maximum of 75%. If there is no eligible spouse and children under age 18 survive, each child receives a monthly allowance of 15% of the final average compensation. The combined payment to children may not exceed 50% of the member's final average compensation. If there is no eligible spouse or eligible children, a benefit of 25% of final average compensation is payable to each surviving dependent parent for life. The monthly benefit is reduced by any payments awarded under the Workers' Compensation Act or Workers' Occupational Diseases Act.

C. Duration of Payment

The monthly annuity payable to a spouse terminates at death, or remarriage before age 55; to children at death, or attainment of age 18, or marriage.

D. Annual Increase in Benefit

The Occupational Death Benefit is increased by 3% each January 1 after receipt of benefits for one full year.

9. OTHER DEATH BENEFITS

If the beneficiary(ies) of the member do not qualify for any of the previously described death benefits, one of the following benefits is payable.

A. Before Retirement

If a member's death occurred while in state service, the benefit consists of: (1) a refund of all contributions plus the interest credited to the member's account; and (2) a payment equal to one month's salary for each full year of service credit not to exceed six month's salary.

If the member had terminated state service, but not yet qualified for a retirement annuity, the benefit consists of a refund of all of the member's contributions to the System plus the interest credited to the member's account.

B. After Retirement

The benefit consists of a lump sum payment equal to the excess of contributions plus the interest credited to the member's account over the total amount of retirement annuity payments made to the member. The minimum payment is $500.

10. NONOCCUPATIONAL DISABILITY BENEFITS

A. Qualification and Amount of Payment

Available to any member who has established at least 18 months of creditable service and who has been granted a disability leave of absence by the employing agency. The benefit is 50% of final average compensation and credit to the member's account of service and contributions. It begins on the 31st day of absence from service on account of disability (including any periods for which sick pay was received).

If the member has social security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is entitled under social security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the service credit established as of the date disability began; (4) attainment of age 65, if benefit commenced prior to the attainment of age 60; (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

C. Increase in Benefit

The Nonoccupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

11. OCCUPATIONAL DISABILITY BENEFIT

A. Qualification and Amount of Payment

Provided for any member who becomes disabled as the direct result of injury or disease arising out of and in the course of state employment.

The benefit is 75% of final average compensation plus a credit to the member's account of service and contributions. The cash benefit is reduced by any payment received under the Workers' Compensation Act or Workers' Occupational Diseases Act.

B. Duration of Payment

Monthly benefits are payable until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; or (3) attainment of age 65, if benefit commenced prior to the attainment of age 60; (4) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (5) death of the member.

C. Increase in Benefit

The Occupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

12. TEMPORARY DISABILITY BENEFIT

A. Qualification and Amount of Benefit

Available to any member who becomes disabled, has established at least 18 months of creditable service, has been denied benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act, or had benefits terminated, and has filed an appeal with the Industrial Commission of Illinois. The benefit is 50% of final average compensation plus credit to the member's account of service and contributions. The benefit shall begin to accrue on the 31st day of absence from service and shall be payable upon the expiration of 150 days from the day the member last received compensation.

If the member has social security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is eligible under social security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the service credit established as of the date disability began; or (4) attainment of age 65, if the benefit commenced prior to the attainment of age 60; or (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member; or (7) benefits are paid or awarded under the Workers' Compensation Act or the Workers' Occupational Diseases Act.

13. SEPARATION BENEFITS

Upon termination of state employment by resignation, discharge, dismissal or layoff, a member may obtain a refund of the contributions made to the System. The member must be off the payroll for 14 days to be eligible for a refund. By accepting a refund, a member forfeits all accrued rights and benefits in the System for himself and his beneficiaries.

LEGISLATION

LEGISLATIVE AMENDMENTS - Amendments with an effective date during Fiscal Year 1996:

Senate Bill 114 (P.A. 89-0136)

A) Since passage of the new funding legislation last year (Senate Bill 533), the five State sponsored retirement systems have attempted to coordinate the actuarial process to assure that, where appropriate, the development of contribution levels are accomplished utilizing similar actuarial procedures. To accomplish this purpose, the SERS act has been amended to provide for the five year actuarial review period to begin June 30, 1997, and continue each five year period thereafter.

B) Certain technical changes pertaining to the funding legislation passed last year (Senate Bill 533), were necessary to clarify that the employer contribution rate should be applied against all forms of compensation paid to employees who are eligible to participate in SERS.

C) Other changes in this bill amended the System's temporary disability benefits period. Previously, the System could pay a temporary disability benefit to a state employee where the cause of disability was in dispute under the Worker's Compensation Act only if no benefits have been payable under that act. The System could not pay a benefit until adjudication was achieved. This change expands the temporary disability benefit and allows payment to an individual who has been terminated from temporary total disability benefits under the Workers' Compensation Act until such time as the claim is finally adjudicated by the Illinois Industrial Commission. There is no additional cost to the proposal as the temporary benefit is exactly the same amount as the nonoccupational benefit that would be paid ultimately if the workers compensation claim were lost. If the individual ultimately receives a workers compensation award, the statue currently provides that excess payments made under the temporary benefit are recoverable directly from the workers' compensation award.

D) As a result of a previous Attorney General's opinion, investigators in the A. G.'s office were limited to receiving credit under the alternative formula to periods on and after, January 1,1989. This was the date that full police powers were extended to these individuals. The bill modifies this provision and allows alternative formula credit prior to 1989 based on the fact that these individuals in essence performed the same duties prior to the 1989 statutory change.

E) Changes were also made to the General Provisions regarding all retirement systems defined in the Illinois Pension Code. These changes are necessary to preserve the system's tax qualified status under the Internal Revenue Code.

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1996, affecting the operation of the System:

House Bill 2616 (P.A. 89-0616; Effective August 9, 1996)

Increases the minimum retirement annuity for retirees of SERS. For retired coordinated members, the current minimum of $7.50 per month per year of service (maximum of 30 years) would increase to $15 per year of service. For retired noncoordinated members, the current minimum of $15 per month of service (maximum of 30 years) would increase to $25 per year of service.

Senate Bill 1456 (P.A. 89-0643; Effective August 9, 1996)

Allows any chief of the County Police Department or undersheriff of the County Sheriff's Department who elects to be included within the provisions of Section 9-128.1 of Article 9 of the Illinois Pension Code to transfer creditable service to the County Employees' and Officers' Annuity and Benefit Fund (Article 9 the Illinois Pension Code).